

**Report to Congress**

**Submitted Pursuant to U.S. Policy in Iraq Act, Section 1227(c) of the National Defense Authorization Act for Fiscal Year 2006 (PL 109-163), as amended by Section 1223 of the National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181)**

**July 2008**

**Table of Contents**

<b>Introduction.....</b>	<b>5</b>
<b>I. The current military mission and the diplomatic, political, economic, and military measures that are being or have been undertaken to successfully complete or support that mission.....</b>	<b>14</b>
<b>(A) Efforts to convince Iraq’s main communities to make the compromises necessary for a broad-based and sustainable political settlement.....</b>	<b>14</b>
<b>(B) Engaging the international community and the region in efforts to stabilize Iraq and to forge a broad-based and sustainable political settlement.....</b>	<b>18</b>
<b>(C) Strengthening the capacity of Iraq’s government ministries.....</b>	<b>21</b>
<b>(D) Accelerating the delivery of basic services.....</b>	<b>23</b>
<b>(E) Securing the delivery of pledged economic assistance from the international community and additional pledges of assistance.....</b>	<b>23</b>
<b>(F) Training Iraqi Security Forces and transferring additional security responsibilities to those forces and the government of Iraq.....</b>	<b>26</b>

- II.** Whether the Iraqis have made the compromises necessary to achieve the broad-based and sustainable political settlement that is essential for defeating the insurgency in Iraq.
- (A) Enacting a broadly accepted hydrocarbon law that equitably shares revenue among all Iraqis.....27
  - (B) Adopting laws necessary for the conduct of provincial and local elections, taking steps to implement such laws, and setting a schedule to conduct provincial and local elections.....27
  - (C) Reforming current laws governing the de-Baathification process in a manner that encourages national reconciliation.....28
  - (D) Amending the Constitution of Iraq in a manner that encourages national reconciliation.....29
  - (E) Allocating and beginning expenditure of \$10 billion in Iraqi revenues for reconstruction projects, including delivery of essential services, and implementing such reconstruction projects on an equitable basis.....29
  - (F) Making significant efforts to plan and implement disarmament, demobilization, and reintegration programs relating to Iraqi militias.....29
- III.** A detailed description of the Joint Campaign Plan, or any subsequent revisions, updates, or documents that replace or supersede the Joint Campaign Plan, including goals, phases, or other milestones contained in the Joint Campaign Plan.....30
- (A) An explanation of conditions required to move through phases of the Joint Campaign Plan, in particular those conditions that must be met in order to provide for the transition of additional security responsibility to the Iraqi Security Forces, and the measurements used to determine progress.....31

- (B) An assessment of which conditions in the Joint Campaign Plan have been achieved and which conditions have not been achieved. The assessment of those conditions that have not been achieved shall include a discussion of the factors that have precluded progress.....31
  - (C) A description of any companion or equivalent plan of the Government of Iraq used to measure progress for Iraqi Security Forces undertaking joint operations with Coalition Forces.....32
- IV. Additional information on military, policy, and security forces:
  - (A) The number of battalions of the Iraqi Armed Forces that must be able to operate independently or to take the lead in counter-insurgency operations and the defense of Iraq's territory.....32
  - (B) The number of Iraqi special police units that must be able to operate independently or to take the lead in maintaining law and order in fighting the insurgency.....32
  - (C) The number of regular police that must be trained and equipped to maintain law and order.....33
  - (D) The ability of Iraq's Federal ministries and provincial and local governments to sustain, direct, and coordinate Iraq's security forces independently.....33
- V. The criteria to be used to evaluate progress toward meeting such conditions.....34
- VI. A plan for meeting such conditions, an assessment of the extent to which such conditions have been met, information regarding variables that could alter that plan, and the reasons for any subsequent changes to that plan.....34

<b>VII.</b>	An assessment of the levels of U.S. Armed Forces required in Iraq for the six-month period following the date of the report, the missions to be undertaken by the Armed Forces in Iraq for such period, and the incremental costs or savings of any proposed changes to such levels or missions.....	35
<b>VIII.</b>	A description of the range of conditions that could prompt changes to the levels of U.S. Armed Forces required in Iraq for the six-month period following the date of the report or the missions to be undertaken by the Armed Forces in Iraq for such period, including the status of planning for such changes to the levels or missions of the Armed Forces in Iraq.....	36
	List of Acronyms and Abbreviations.....	38

## **Introduction**

This report is submitted pursuant to Section 1227(c) of the National Defense Authorization Act for Fiscal Year 2006 (Public Law 109-163) concerning United States Policy in Iraq, as amended by Section 1223 of the National Defense Authorization Act for Fiscal Year 2008 (Public Law 110-181). The report covers the security, political, diplomatic, and economic measures that are being or have been undertaken primarily during the reporting period April 1 to June 30, 2008 (for convenience, referred to here as the Second Quarter of 2008).

This report is organized into the following sections: (1) the current mission in Iraq and measures taken to support it; (2) Iraqi progress towards a sustainable political settlement; (3) a description of the Joint Campaign Plan; (4) Iraqi Security Forces (ISF) capacity and readiness; (5) criteria used to evaluate progress in that area; (6) the plan for successfully completing the mission; (7) an assessment of the U.S. force levels required in Iraq for the next six months and their missions; and (8) a description of conditions that could prompt changes in U.S. force levels.

The focus of U.S. policy in Iraq remains helping the Iraqi people build a constitutional, representative government that respects the rights of all Iraqis and has security forces capable of maintaining order and preventing the country from becoming a safe haven for terrorists and foreign fighters. The ultimate goal is a peaceful, united, stable, democratic, and secure Iraq with institutions capable of providing just governance and security for all Iraqis. In order to accomplish these goals, the efforts of the U.S. Government (USG), the Government of Iraq (GOI), governments of other Coalition states, and the international community must be integrated. Active participation of the United Nations (UN) and states and international organizations involved in the International Compact with Iraq (ICI) and the Expanded Neighbors of Iraq processes will be key. U.S. policy outlines goals and measures progress along four tracks: security, political, diplomatic, and economic. Ultimately, responsibility for success in these efforts lies with the Iraqi people.

## **Security Track**

The security environment in Iraq continues to improve, with all major violence indicators markedly reduced from pre-surge levels. Coalition and Iraqi forces' operations against al Qaeda in Iraq (AQI) continue to shrink the areas in which AQI and its insurgent allies enjoy support and sanctuary, degrading its

UNCLASSIFIED

- 6 -

ability to attack and terrorize the population. ISF operations in Ninewa Province in May have severely disrupted AQI's grip on Mosul. Although AQI remains a dangerous and adaptable enemy and is still capable of high-profile attacks, the lack of violence linked to AQI in recent weeks demonstrates the effect ISF and Coalition operations have had on its network. Equally important, the government's success in Basrah and Baghdad's Sadr City against militias, particularly Jaysh al-Mahdi (JAM) and the JAM Special Groups, and in Mosul against AQI, has reinforced a greater public rejection of militias and extremists. This rejection, while still developing, is potentially as significant for Iraq as the Sunni rejection over the past 18 months of AQI's indiscriminate violence and extremist ideology. Overall, the communal struggle for power and resources is becoming less violent. Many Iraqis are now settling their differences through debate and the political process rather than open conflict. Other factors that have contributed to a reduction in violence include the revitalization of sectors of the Iraqi economy and local reconciliation measures.

Although the number of civilian deaths in April 2008 increased slightly from February and March 2008, in May 2008 civilian deaths declined to the lowest levels since January 2006. Both Iraqi and Coalition forces reported that civilian deaths are 65 percent lower than July 2007 levels and 75 percent lower than the peak number of monthly deaths that occurred in the last two months of 2006, at the height of sectarian violence. Periodic high-profile car and suicide vest bombings continued throughout the period. However, the trends of decreasing violence suggest the failure of these high-profile attacks to rekindle the self-reinforcing cycle of ethno-sectarian violence that began in 2006.

The emergence of the Sons of Iraq (SoIs) to help secure local communities has been one of the most significant developments in the past 18 months in Iraq. These volunteers proved effective in many areas in helping protect their neighborhoods, securing key infrastructure and roads, and locating extremists among the population. What began primarily as a Sunni effort now appears to have taken hold in several Shi'a and mixed communities. Today there are 103,000 SoIs contributing to local security in partnership with Coalition and Iraqi combat units. AQI's continued targeting of SoIs demonstrates AQI's recognition of the importance and effectiveness of SoI initiatives. To convert SoI successes into long-term security gains, the GOI must transition SoI members into the Iraqi forces or train them for civilian jobs. The GOI should speed the pace of this transition.

Recent ISF-led operations in Basrah, Sadr City, Mosul and Amara remind us, however, that security gains can be uneven, fragile and tenuous if not

UNCLASSIFIED

UNCLASSIFIED

- 7 -

accompanied by continued progress toward national reconciliation and economic development. In Basrah and Sadr City, mainstream JAM and elements of Special Groups appeared to coalesce, at least temporarily, to defend against the loss of their areas of influence to government forces. This generated significant increases in security incidents in late March and early April 2008. Iraqi forces ultimately succeeded in establishing control of Basrah and parts of Sadr City, however, and attacks in recent weeks across Iraq have declined to the lowest level in four years.

In a broader sense, the government's efforts in Basrah reflected two positive developments. First, Prime Minister Maliki demonstrated a willingness to confront militias and extremists, regardless of sectarian identity. His leadership in the Basrah events generated a generally positive response from all Iraqi communities – Sunni, Kurdish and Shi'a. Second, Iraqi forces demonstrated an improved capability to lead and execute significant counterinsurgency operations. Despite some initial difficulties and the uneven performance of local police, Iraqi forces won the support of most Basrawis and a greater share of the Iraqi population. Although still reliant on Coalition combat support elements, Iraqi forces developed a sense of confidence that enabled them to conduct more effective follow-on security operations. The Basrah operation also demonstrated an improved capability by the Joint Headquarters and Division staffs to deploy and sustain Iraqi Army (IA) units in battle.

Over the last three months, there has been a significant increase in Iraqi-led operations. In the northern provinces, Iraqi Special Operations Forces and IA battalions operate independently of, or side by side with, Coalition forces. These units consistently demonstrate a high level of proficiency in counterinsurgency operations against AQI and other extremist groups. In many population centers, such as Ramadi and Kirkuk, the Iraqi Police are in the lead for population security, performing well and earning the trust of the populace. In addition, the GOI continues to assume greater provincial security responsibility through the Provincial Iraqi Control (PIC) process. Nine of eighteen provinces have assumed PIC, and the remaining provinces are progressing well. Anbar and Qadisiyah are expected to transition to Iraqi control in the summer of 2008.

The GOI continues to assume broader ownership of Iraq's security programs. Iraq's security ministries have improved their ability to execute their budgets but still require increased capacity to man, train, sustain and field forces. The Ministry of Defense (MoD) and the Ministry of Interior (MoI) training capacity continues to expand but will require more time to fully address the training demand backlog. The current shortage of Iraqi force leaders will take

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years to overcome, but several measures are in place to address this problem, including rehiring former Non-Commissioned Officers. Both ministries continue to lack the institutional capacity to make procurement decisions in a timely manner.

### **Political Track**

This reporting period has seen an increase in Iraq's sense of national unity. Prime Minister Maliki has sustained the national momentum gained by non-sectarian operations against militias in Basrah and Sadr City last spring. In a show of political unity, many Shi'a, Sunni, and Kurdish leaders continue to support Maliki's government.

Partially as a result of the increased sense of national unity surrounding his government, Prime Minister Maliki's team of advisors has made some progress in negotiations with senior leaders from Tawafuq (Sunni Arab bloc) and Iraqiya (Nationalists), who resigned from the national cabinet in August 2007. Of the 15 ministerial positions formerly held by the Tawafuq and the Iraqiya List parties and the Sadrist Trend, only nine positions remain vacant.

The GOI has been working toward implementation of key legislation passed in the first part of the year. Regional committees continue to accept applications for releases under the Amnesty Law passed in February. The law provides for the release of many Iraqi detainees held in Iraqi government criminal detention facilities. As the majority of persons held in GOI criminal detention are Sunni, the law is widely seen as a gesture to the Sunni community intended to foster national reconciliation.

The Law on Accountability and Justice (also known as the de-Baathification reform law) still awaits implementation. Passage of this legislation was a positive development, but the ultimate impact of the law will depend in large part on the spirit in which it is implemented. Iraq's leaders have pledged to pursue implementation that will bolster reconciliation efforts.

The Provincial Powers Law, also passed in February, will apply to new provincial councils (PCs) that will be elected later this year. In order for those councils to be elected, the Iraqi Council of Representatives (CoR) must pass the Provincial Elections Law, which will determine voter eligibility and resolve a wide range of political and technical questions on how the elections are to be conducted. The CoR is currently debating the law, which has had its second reading. The



Presidency Council, the Prime Minister, and a majority of political blocs remain committed to holding provincial elections in 2008.

Now two years old, the CoR has begun to develop into a functional democratic body. Speaker Mashadani and Deputy Khalid Attiyah are increasingly pressing members to adhere to the CoR by-laws and to attend sessions regularly in order to maintain a quorum. The CoR and its leadership continue to work toward improving productivity as well as the CoR's reputation with the Iraqi people as a democratic institution.

Since the summer of 2007, the rate of overall displacement has leveled off, but an increasing number of internally displaced persons (IDPs) are being recorded because of improved survey methods and increased capacity of the GOI Ministry of Displacement and Migration (MoDM) to deliver emergency services. The International Organization for Migration (IOM) reports that there are a total of 2.7 million IDPs in Iraq, with 1.5 million Iraqis having been displaced following the February 2006 Samara Mosque bombing. UN reporting indicates that there are about 2 million externally displaced Iraqis, or refugees. Recent GOI military operations in Basrah and around Sadr City did not generate significant numbers of new IDPs. Conditions for Iraqis displaced inside and outside the country are steadily declining. The office of the UN High Commissioner for Refugees (UNHCR) and other humanitarian agencies have indicated that they may be forced to begin reducing assistance programs by mid-summer if they do not receive increased contributions. The USG has already provided \$208 million in humanitarian assistance to displaced Iraqis and will receive significant additional funding from the recently approved 2008 Supplemental. At the same time, the GOI, with assistance from the UN and USG, is completing a National Policy on Displacement and increasing its attention to returns of displaced Iraqis.

Looking ahead, the GOI must focus on passing a hydrocarbons legislative package and the Provincial Elections Law, and complete its constitutional review. Leaders must also move forward with a process to address the future status of Kirkuk and other disputed internal boundaries (DIBs). As part of its expanded mandate under UN Security Council Resolution (UNSCR) 1770, the UN Assistance Mission to Iraq (UNAMI) continues to work with Iraqi leaders to provide technical assistance on implementing a process for resolution of DIBs and on preparations for provincial elections. On June 5, UNAMI announced recommendations on phase one of its plans to negotiate a political compromise on DIBs in Iraq.

## **Economic Track**

Iraq's economy continues to move in a positive direction in response to the improvements in the security situation throughout the country. The International Monetary Fund (IMF) projects 8 to 8.5 percent real Gross Domestic Product growth in 2008. Through tightened monetary policy, exchange rate appreciation, and monetary discipline, the Central Bank of Iraq (CBI) has been able to maintain inflation at relatively low levels through the first half of 2008. In May 2008, year-on-year core inflation was 14.7 percent and year-on-year overall inflation was 4.6 percent. The CBI lowered its main interest rate to 16 percent in June 2008, down from 20 percent at the beginning of 2008 as the dinar continues to appreciate. In coordination with its international partners, the CBI is working to develop new monetary policy instruments to further increase its effectiveness.

Crude oil production averaged 2.48 million barrels per day during the second quarter of 2008, a 4.7 percent increase from first quarter 2008, above the GOI target of 2.2 million barrels per day. Crude oil exports averaged 1.9 million barrels per day during the second quarter of 2008, a 1.4 percent decrease over first quarter 2008. The decrease is a result of inclement weather, which affected Southern exports for several days. Crude oil prices averaged \$113.72 per barrel during the second quarter of 2008, well above the \$57 per barrel budgetary target for 2008, substantially increasing government revenue. Iraqi officials continue to discuss outstanding issues regarding national hydrocarbon framework legislation in an effort to achieve consensus.

While working for passage of the four hydrocarbon laws in the CoR, the Iraqi Ministry of Oil (MoO) in Baghdad took two parallel actions. First, the MoO is negotiating several two-year technical service agreements (TSAs) with major international oil companies. These companies will procure equipment, train Iraqi nationals, and advise on reservoir management. None of these TSAs have been signed, primarily due to questions about payment. Second, the MoO has announced 35 major international oil companies have pre-qualified to bid in Iraq's proposed first tender for rehabilitating and expanding existing petroleum fields and for development of the Akkas gas field. The MoO has not stated when the tender will begin or for which fields, but the expectation was for the end of this year. The MoO posted the names of the companies that can participate on its website.

As a result of higher-than-projected oil revenues, the GOI has a relatively stable fiscal situation, allowing for additional government investment in much-needed large-scale infrastructure projects. The 2008 Federal Budget Law,

UNCLASSIFIED

- 11 -

published on March 13, 2008, projects revenue of \$42.3 billion, \$35.5 billion of which comes from oil. It allocates \$49.9 billion for expenditures, which includes \$13.2 billion for capital investment expenditures and \$9 billion for the security ministries. The 2008 budget represents a 22 percent increase in overall expenditures, a 29 percent increase in investment expenditures and a 23 percent increase in security expenditures over the 2007 budget. The additional revenue from high oil prices and higher-than-projected exports covers the projected \$7.6 billion deficit in full. The Council of Ministers (CoM) is currently reviewing a mid-year supplemental budget request for submission to the CoR that could reach between \$5 and \$20 billion. These supplemental funds will be channeled primarily toward infrastructure projects, but will also include some money for operating expenditures and humanitarian needs.

Ministries and provincial governments continue to build on the significant progress seen in 2007, but still face some problems on budget execution. To enhance timely budget execution and accounting, the GOI signed a Memorandum of Understanding with the United States Agency for International Development (USAID) in January 2008, restarting a program to implement a financial management information system and committing itself to providing the necessary resources to make the system operational. The U.S. Embassy in Baghdad is in the process of forming a Public Finance Management Action Group to better coordinate USG assistance to the GOI on improving budget execution, identifying roadblocks and providing solutions to those roadblocks.

U.S. Embassy officials and Provincial Reconstruction Team (PRT) officers continue to work with Iraqi national and provincial government officials to improve the budgeting and budget execution processes. The Local Government Program (LGP) helps local governments compose provincial development strategies. LGP, a USAID program working in cooperation with the GOI Ministries of Planning and Finance and with the support of the PRTs, helped these governments with strategies that provided an overall analysis of provincial goals for each sector. At a May 11-13 national conference that addressed implementing the provincial development strategies, the GOI and provincial governments agreed to use these strategies as the foundation for developing provincial development plans (PDPs), which will provide a prioritized list of sector-to-sector projects with respective budget breakdowns. The goal is to facilitate the coordination of provincial and national ministry budgetary requests, with local governments using the PDPs as the basis for their budget requests to the GOI.

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The GOI continues to plan for reform of its Public Distribution System (PDS), a domestic program of food aid for all Iraqis. PDS reform is fiscally necessary, as costs have climbed steeply due to the international rise in fuel and food prices. The GOI spent more than \$3 billion on PDS in 2007, with the Minister of Trade projecting costs to more than double (to \$7 billion) in 2008. The GOI's mid-year supplemental budget request will likely include some additional funding for the PDS. The PDS has partially shielded Iraqis from the burden of rising food costs, as PDS rations – officially available to all Iraqis – include staple foods such as flour and rice. The GOI's goal over the next 2-3 years is to roll the PDS program into a broader social safety net program that better targets vulnerable Iraqis with a comprehensive package of benefits.

Following the February 2008 U.S.-Iraq Dialogue on Economic Cooperation in Baghdad, U.S. Embassy and GOI officials met to establish the key “next steps” for pursuing economic growth in Iraq. They include developing an action plan on state-owned bank restructuring, ratifying the U.S.-Iraq Trade and Investment Framework Agreement (TIFA) in the CoR, convening the first TIFA Council meeting in 2008, working together to create a comprehensive national energy strategy and improve investment in oil and gas, pursuing GOI membership in the Extractive Industries Transparency Initiative, and reforming the PDS. These steps will continue to be an important part of the U.S.-Iraq bilateral relationship.

The First Annual Review Report on Iraq's progress implementing the goals and benchmarks of the ICI was published on the internet on May 20, 2008. The report was discussed in great detail by Iraqi Prime Minister Maliki and Deputy Prime Minister Salih and the international community (led by UN Secretary General Ban Ki-Moon) at the First Annual Review Conference of the ICI held in Stockholm, Sweden, on May 29, 2008. The Report noted substantial progress toward meeting more than 400 ICI goals and benchmarks by most of Iraq's ministries, including in the areas of security and political reconciliation. The Secretariat works with ministries, provinces, the CoR, and donors, and is responsible for coordinating Iraq's implementation of ICI goals and benchmarks. As part of its commitments undertaken in the ICI, the Iraqi government has convened Thematic Work Groups to address particular economic areas (e.g., electricity, health care), headed by the relevant ministries. A technical advisor contracted by the UN and funded by the European Union (EU) helped Iraq to draft the First Annual ICI Review Report. All of the ICI documents, including the first Annual Report and Joint Monitoring Matrices, can be found at [www.IraqCompact.org](http://www.IraqCompact.org).

Improvements in security over the last quarter have led the private sector to increasingly consider Iraq as a destination for investment. Several high-level gatherings on investment opportunities have provided the venue for these discussions.

The Iraqi Ministry of Industry and Minerals (MIM), along with the Defense Department's Task Force to Improve Business Stability Operations in Iraq, hosted a conference April 19-20 in Dubai at which MIM state-owned enterprises presented opportunities for joint-venture production-sharing agreements with private firms. Two multinational consortia signed production-sharing agreements with state-owned cement factories. The factories are located in Al Qaim and Kirkuk and the deals are, respectively, for a \$100 million investment in which investors receive 25 percent of production and a \$125 million investment in which investors receive 35 percent of production.

The Second Iraq Business and Investment Conference took place May 14-16 in Cairo, and provided the opportunity for officials to present and promote Iraq's pro-investment policy and regulatory environment to prospective investors. Meetings allowed government officials to speak with private sector representatives and breakout sessions showcased opportunities in areas such as housing, construction, agriculture and tourism.

The American Chamber of Commerce in Iraq capitalized on the increased interest in the resurgence of Iraq's private sector by organizing a 'Door Knock' in Washington, D.C., articulating the changing conditions on the ground and explaining future plans. The U.S. Department of Commerce lead a June 2008 Business Development Mission to Erbil. These two initiatives capitalize on the recent launch of business visa interviews in Baghdad that will facilitate business travel, whereas previously Iraqis needed to travel to Amman for U.S. visa interviews.

Iraq has continued to work with its international partners and creditors. Iraq is on track to successfully complete its current Stand-By Arrangement (SBA) with the IMF. The major economic structural reforms that Iraq agreed to implement under the SBA include strengthening public financial management and the accounting framework of the CBI, restructuring the two largest public banks, and removing subsidies in the oil sector. Iraq's satisfactory completion of the SBA will trigger the final 20 percent tranche of debt reduction under Iraq's agreement with the Paris Club, bringing the total debt reduction to 80 percent.

Also on the international front, Iraq continued the long-term process of World Trade Organization (WTO) accession by submitting the requested documentation to the WTO Secretariat and holding its second Working Party meeting in Geneva on April 2. The Legislative Action Plan, one of the submitted documents, outlines Iraq's schedule for drafting or amending laws to be compliant with WTO regulations. The GOI continues to work on finalizing a harmonized tariff schedule for submission to the WTO.

**I. The current military mission and the diplomatic, political, economic, and military measures that are being or have been undertaken to successfully complete or support that mission.**

In early March, the United States and Iraq began discussions in Baghdad on a Strategic Framework. The Strategic Framework is intended to reflect shared U.S. and Iraqi political, economic, cultural, and security interests. On March 11, U.S. and Iraqi negotiating teams opened talks on a bilateral Status of Forces Agreement, to provide for authorities and protections for U.S. forces following the expiration of the Multi-National Force – Iraq (MNF-I) mandate given in UNSCR 1790 on December 31, 2008. Negotiations have continued on these dual tracks, and intensified, during the reporting period.

**(A) Efforts to convince Iraq's main communities to make the compromises necessary for a broad-based and sustainable political settlement;**

During the reporting period, both the Iraqi federal government and local governing bodies have taken steps to further reconcile the different political, religious, and ethnic communities across the country. Additionally, senior USG officials have made it a priority to stress to the Iraqis that they should take advantage of the more secure environment created by the "surge" of American troops in combination with the Awakening Movement in Iraq for such reconciliation. Although there have been several instances of national and local reconciliation in Iraq, the USG and GOI recognize that more needs to be done in order to sustain any and all of the economic, security, and political achievements.

One example of political reconciliation is found in Tawafuq's ongoing negotiations to rejoin Prime Minister Maliki's cabinet. Tawafuq, the largest Sunni political bloc, has boycotted the cabinet since the summer of 2007. However, in April 2008, Adnan Dulaimi, a Tawafuq senior leader, announced that the Sunni

bloc would rejoin the GOI. Dulaimi acknowledged that Tawafuq's return to the GOI was spurred with the passage of Iraq's Amnesty Law in February of 2008 (which has led to the release of many Sunni detainees). Tawafuq applauded Maliki in his attempt to place the state of Iraq before any political party or religious sect. There have been continuous negotiations between the GOI and Tawafuq members during the reporting period regarding the types and number of ministries the Sunni bloc would occupy.

Vice President Hashimi's rapprochement with Prime Minister Maliki is also an example of political reconciliation. The strained relations between these two influential Iraqi leaders since each took office has been well documented. Yet, when (Shi'a) Prime Minister Maliki began the "Charge of the Knights" offensive in Basrah, (Sunni) Vice President Hashimi hailed the operation and personally voiced support for the Prime Minister. Vice President Hashimi now works closely with Prime Minister Maliki in planning future security operations.

The CoR has shown that it can overcome political, religious, and ethnic differences and work on several distinct pieces of legislation. As noted above, in February 2008, the CoR passed the Provincial Powers Law, which was seen as a key measure toward national reconciliation. The Provincial Powers Law dictates the power-sharing relationship between the federal and provincial governments and mandates that provinces not incorporated into regions hold elections by October 1, 2008. However, in order to hold provincial elections in October, the CoR must first enact a Provincial Elections Law defining electoral logistics. On May 11, the CoR had its second reading of the draft Provincial Elections Law. Lively debate continues, the main areas of contention being: apportionment of Kirkuk PC seats, refugee voting procedures, provisions for female and minority representation, open versus closed lists, and election timing. The international community is providing technical assistance to the CoR and supports the immediate passage of an elections law. Throughout the process, different Iraqi political parties have shown a willingness to compromise and debate the intricacies of the law in a civil and professional manner.

In addition to the Provincial Powers Law, the CoR has drafted, debated, and enacted a wide variety of legislation. For instance, the CoR introduced laws relating to: merging federal banks; implementing structural changes to the Supreme Judicial Council; ratifying agreements for Iraq to join the UN Convention on Biological Diversity, the Arab Agreement for Combating Terrorism, and the UN Convention Against Torture; governmental salaries; forensic medicine; fireworks; the environment; and consumer protection. Throughout this reporting

period, CoR members have attempted to pass legislation that will aid their constituents and, often times, all Iraqis. Although key pieces of legislation, such as a hydrocarbons package, have been slow in developing, many Iraqis have embraced the CoR, which is an important symbol of democracy as well as a mechanism for national reconciliation.

On Iraqi displacement, the number of Iraqis displaced in the region and inside Iraq has remained stable since fall 2007. However, improvements in surveying methods and the security environment have resulted in an increase in the number of IDPs reported by the IOM. IOM reports that there are 2.7 million Iraqi IDPs, 1.5 million of whom were displaced following the February 2006 Samara Mosque bombing.

The UN and international humanitarian organizations caution that the needs of the externally and internally displaced Iraqi population are growing as personal savings are depleted, food and shelter costs rise, and prohibitions against working in host countries or the inability to find jobs in Iraq erode the ability of Iraqis to provide for themselves. Caring for an increasingly impoverished displaced population is straining the hosting capacities of countries in the region and communities in Iraq.

The UN and international humanitarian community, recognizing the need for increased assistance for this displaced population, have issued humanitarian appeals that total over \$900 million for 2008. The United States is the largest donor to this international humanitarian effort. The State Department and USAID have contributed \$208 million to date in fiscal year 2008 (FY08). Both State and USAID are finalizing additional contributions (more than \$70 million) to international and non-governmental organizations (NGOs) with available FY08 funding. The 2008 Supplemental recently approved by Congress is expected to provide additional humanitarian assistance funds to further support international organizations and NGOs.

The Department is encouraging contributions from the region, European countries, and the GOI to help meet the funding gap. Secretary Rice highlighted the need for increased collaboration on the part of European and regional countries, as well as the Iraqi government, in assisting Iraqi refugees at the April 22 Expanded Neighbors of Iraq Ministerial meeting in Kuwait. The Department's Senior Coordinator on Iraqi Refugee Issues, Ambassador James Foley delivered a similar message in late March.



UNCLASSIFIED

- 17 -

The State Department continues to work closely with the Department of Homeland Security to meet the Administration's goal of resettling 12,000 Iraqi refugees in the United States by September 30, 2008. In May, the United States resettled 1,141 Iraqi refugees in the United States, bringing the total to date for FY08 to 4,742. In May, the Department also resettled the first Iraqi family fully processed in Baghdad. The Department and Embassy Baghdad are working towards expanding the number of Iraqis processed for refugee resettlement inside Iraq.

The GOI has stepped up its efforts to provide assistance to its displaced citizens. In April, the Iraqi CoM approved a National Policy on Displacement which was drafted by the MoDM in consultation with UNHCR and the U.S. Embassy in Baghdad. The CoM also approved a \$195 million MoDM budget request which the ministry would use to support and provide financial assistance to returnees. MoDM is working with UNHCR on a national conference that will discuss the national policy and its implementation. In addition, the GOI contributed \$40 million toward the World Food Program's Emergency Operation to provide food assistance in Iraq.

PRTs continue to play an important part in helping Iraqis with the reconciliation process. As of May 2008, the PRTs in Iraq consisted of approximately 800 civilian-military personnel and were actively engaging in all 18 provinces. These PRTs have improved communication and cooperation across Iraqi society by facilitating dialogue and the equitable use of Iraqi resources for the benefit of all Iraqis. Additionally, PRTs have aided provincial officials in interacting more effectively with the federal government in order to gain better funding and essential services for their communities.

Throughout the reporting period we have also seen reconciliation take root at the provincial and local level. This reconciliation is evidenced by several instances of local Iraqi leaders working together across ethnic divisions to create more peaceful living environments, re-establish unified provincial governments, and create more efficient bureaucratic institutions.

One significant example of reconciliation during the reporting period is seen in the Kirkuk PC's implementation of the Thirteen-Point Agreement between the Kirkuk Brotherhood List (KBL) and the Arab bloc. Sunni Arabs ended their boycott of the Kirkuk PC by signing this Arab/KBL Thirteen-Point Agreement in December of 2007. In May, the Turkmen Bloc also returned to the Kirkuk PC, thus ending their seventeen month-long boycott of the PC. These recent events in

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Kirkuk not only reflect the willingness of the Iraqi people to conclude political agreements, but also reflect the strength and conviction necessary to implement these crucial pacts.

**(B) Engaging the international community and the region in efforts to stabilize Iraq and to forge a broad-based and sustainable political settlement;**

During this reporting period, the Iraqi and U.S. governments continued to work with the international community to promote security, economic growth, and political progress in Iraq. In addition to the U.S. contribution of over 155,000 troops, 25 countries provide nearly 10,000 military troops to the Coalition, with the United Kingdom, Georgia, Poland, the Republic of Korea, and Romania among the major contributors. During the reporting period, Montenegro announced its plans to contribute forces to the Coalition and Australia ended its combat role. Sixteen countries contribute forces to the NATO Training Mission – Iraq (NTM-I), including the Italian-led Carabinieri training for the National Police (NP). Mongolia announced its support to MNF-I by approving its tenth rotation into Iraq. The first Friends of Iraq conference, held mid-June in Abu Dhabi, discussed opportunities for participating nations to sustain the rebuilding effort beyond security contributions.

The international community took several additional steps to show its support for Iraq during the reporting period.

UNAMI, under Special Representative of the Secretary General Staffan de Mistura, has continued to take an active role in addressing the future of Kirkuk and other disputed territories, assisting the Iraqis in preparations for provincial elections later this year, advancing national reconciliation, and assisting Iraqi refugees. Some 140 non-administrative staff are based in Baghdad, with approximately 40 in Erbil. The UN has opened an office in Basrah which is staffed by 4 civilians.

The third Expanded Neighbors of Iraq Ministerial took place in Kuwait on April 22. This followed previous meetings in Sharm el Sheikh, Egypt (May 2007) and Istanbul, Turkey (November 2007). There was high-level participation from Iraq's neighbors plus Bahrain and Egypt, the five permanent members of the UN Security Council, the Group of Eight, the EU, the UN, the Organization of Islamic Conference, and the Arab League. All the members of the Gulf Cooperation Council (GCC) were also invited to participate for the first time. The April

UNCLASSIFIED

- 19 -

meeting was notable for its positive atmosphere, demonstrations of support for Iraq, and acknowledgement that progress had been made. Prime Minister Maliki called for enhanced engagement from the neighbors. The Kuwaiti co-chair, PM Sheikh Nassar Mohammad Ahmed al-Sabah, highlighted the need for non-interference in Iraqi affairs by the neighbors and the extension of goodwill towards Baghdad. The Neighbors Energy Working Group met in Istanbul on March 3 and 4, and the Refugees Working Group met on March 18 in Amman. The Border Security Working Group convened in Damascus on April 13.

On April 21, at the GCC Plus Two meeting in Manama, Iraq was included for the first time and it was agreed that Iraq would attend all future meetings. This inclusion marked an important step towards Iraq's reintegration into the region.

During a two-day visit to Iraq starting on May 31, French Foreign Minister Bernard Kouchner officially opened the new French Embassy Office in the city of Erbil. Kouchner met with senior officials during his visit, including Prime Minister Maliki, President Talabani, and Foreign Minister Zebari. Kouchner acknowledged the improving security situation in Iraq. The French have also announced their intention to open a consulate in Basrah.

On June 5, the United Arab Emirates' Foreign Minister Sheikh Abdullah bin Zayed al-Nahayan traveled to Baghdad in an effort to improve relations with the Maliki government. He is the first Foreign Minister from a Gulf Arab country to visit Iraq since 2003. During his trip, Al-Nahayan announced that the United Arab Emirates would open an embassy in Baghdad and name an Ambassador to Iraq in the near future. He also extended an official invitation from the United Arab Emirates' President Sheikh Khalifa Bin Zayed Al-Nahyan to Prime Minister Maliki.

Jordan appointed Jayef Zeidan Ambassador to Iraq on June 30. A Jordanian spokesman publicly stated that Zeidan would leave for Iraq as soon as possible; he has served as Consul in the UAE for the past two years.

On June 7, Prime Minister Maliki made his second trip to Iran this year and met with Iranian Supreme Leader Ayatollah Ali Khamenei, President Ahmadinejad, and other Iranian leaders. Among other issues, Prime Minister Maliki discussed the issue of Iranian interference in Iraq and a U.S.-Iraq long-term strategic relationship. According to media reports, Iran's supreme leader told Maliki that the U.S. military presence was the main cause of Iraq's problems,

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while President Ahmadinejad pledged to help bring stability to Iraq and improve the security environment.

During the reporting period, the EU made clear its ongoing commitment to Iraq, particularly in the fields of national reconciliation, strengthening the rule of law, supporting the electoral process, alleviating the humanitarian situation of IDPs and refugees, and providing assistance to the secretariat of the ICI. As a demonstration of the strength of the relationship, Prime Minister Maliki visited Brussels on April 16.

The first anniversary meeting of the ICI was held in Stockholm, Sweden on May 29, with nearly 100 countries and international organizations in attendance. Participants acknowledged the progress that has taken place in Iraq over the last year, but noted that more work still needs to be done. At least 30 delegations were led by ministers or heads of organizations, but none of the Gulf states sent foreign ministers. At the event, Brazil announced its intention to open an embassy in Baghdad by year's end, while Turkey confirmed its plans to open a consulate in Basrah and joined the United Kingdom and Iraq in opening a free trade zone on the Kuwait border.

The ICI, launched at Sharm El-Sheikh in May 2007, provides the overarching framework for coordinating and enhancing donor assistance to Iraq, with the goal of Iraqi economic self-sufficiency by 2013. In July, there will be a full meeting of the International Reconstruction Fund Facility for Iraq (IRFFI) Donors Committee in Baghdad. The international community also provided economic support to Iraq through other initiatives during the reporting period (covered in greater detail in section (I)(E)).

The United States has been working closely with the GOI and the international community to address the issue of Iraqi refugees and IDPs. Embassy Baghdad officials meet regularly with GOI officials and representatives from international humanitarian agencies and NGOs to discuss refugee and IDP returns, access by these communities to essential services, and coordination between the various actors involved. Displacement and the need for humanitarian assistance for Iraqi refugees and IDPs were also raised recently in international fora, including the April 22 Expanded Neighbors of Iraq Ministerial in Kuwait and the May 29 ICI meeting in Stockholm. During a visit to the region at the end of May, French Foreign Minister Bernard Kouchner said France was ready to receive 500 refugees from Iraq "as a first step."

**(C) Strengthening the capacity of Iraq's government ministries;**

We are continuing our civilian ministry capacity building program, which began in 2006, to train ministerial employees in public administration, management, leadership, and technical fields. We continue to review the program for opportunities to increase engagement.

Continuing efforts to develop GOI capacity in budget formulation and capital execution have become more refined and targeted. We are working with our implementers, international partners, and the GOI to further improve GOI performance. The quality of the information made available to the U.S. Embassy in Baghdad by the Ministry of Finance and the Ministry of Planning (MoP) is improving significantly. In 2007, the capital budget execution rate for the GOI more than doubled following its performance in 2006. We anticipate a continuing upward trend in the GOI budget execution performance for 2008, although the addition of the GOI's mid-year supplemental budget may ultimately impede the government's ability to improve on its 2007 execution rate due to execution constraints within the Iraqi economy. Training and technical assistance have put ministries in a better position to design, develop, implement, and monitor their proposed projects. The Embassy has formed a Public Finance Management Action Group to increase the focus on budget execution; it began its work on June 20, 2008.

USAID's *Tatweer* Project shifted its focus in the last quarter to address the budget execution deficiencies at the ministerial level. *Tatweer* now provides more assistance on project selection, design, and implementation, as well as on the streamlining of procurement procedures through dedicated support to the contracting units within ministries. The *Tatweer* Project assisted the MoP with a national workshop May 18-19, "Improve the Selection of Capital Investment Projects." Minister of Planning Ali Baban led the workshop and engaged extensively on both days; attendees included Directors General from line ministries and provinces and PC members. Active media coverage enhanced transparency, while provincial representatives remarked on the "undreamed-of opportunity" to have a frank dialogue with the minister on related concerns. The MoP envisions two follow-up workshops, on project monitoring and contractor performance.

In addition, based on a request from the MoP to build long term capacity in the project selection, design and implementation, the *Tatweer* advisors developed a

two-phase training course on feasibility studies; the series began in mid-May with the objective to train 200 GOI staff. The first week focuses on technical and theoretical knowledge, while a follow up three-day workshop covers case studies presented by the ministry participants.

In May, representatives of the Procurement Assistance Center (PAC) program at the MoP briefed the Embassy on the 2008 Instructions for Government Contracts. This manual offered instructions in key areas such as direct invitation and increased thresholds, in addition to providing expedited processes and expanded exceptions for special case purchase requirements. Furthermore, *Tatweer* has amended its procurement course material and recently also hired two new procurement specialists to help incorporate the new rules and regulations issued by the GOI, and to expand the training outreach ability at the central and provincial ministerial level.

Anbar and Ninawa are the final provinces to receive PAC support. Program reviews will be conducted by the PAC program with the Iraq Transition Assistance Office (ITAO) staff to review PAC support to the provinces as well as additional potential methods of employment to support budget execution improvements.

The PAC program had previously developed a Web-based system to facilitate project submission and approval – which is the first half of the Iraqi budget execution process. This web system provides for the rapid submission and monitoring of project feasibility studies and capital budget projects. This web system has been delivered to the MoP. ITAO is evaluating the potential to accelerate the usage of the web process for these functions by GOI entities.

Training workshops for contracting specialists continue to be conducted for ministry and provincial GOI personnel. *Tatweer* and the PAC programs are coordinating to provide a standardized contracting curriculum and to maximize the effectiveness of contracting training. This is particularly beneficial for ministries that were not augmented with PAC contractor specialists because they already have embedded contracting specialist employees.

In April, ministry advisors made a concentrated effort to determine methods for GOI ministry personnel to enhance the delivery of services in the provinces. The results of this effort included: (1) highlighting the relationship between the ministry advisors and the PRT members and their roles in GOI problem solving; (2) emphasis on the requirement for PRT members to establish strong relationships with the ministry representatives within the PRT's area of operations; and (3)

underscoring the requirement for ministry advisors to discuss with their ministry contacts the need for good communication between central ministry Directors and provincial ministry personnel. About half of the ministries are organized by province and others by function. Many ministries have Director General positions outside the central Ministry but generally all major ministries have some representation in each province.

In view of the GOI's decentralization efforts, the MoP requested assistance from USAID to organize the ministry's newly established six-person planning units in 15 provinces. The *Tatweer* Project is providing the 90 junior staff a rapid orientation course managed by the MoP's Head Office Directorate for Housing and Construction, which oversees these provincial planning units. The training involves basic information on project management and strategic planning, and provides an overview of the existing budget execution system, clearly highlighting the roles of the various players. Concurrently, *Tatweer* is helping develop a monitoring system and database to facilitate provincial capital investment project expenditure, and to foster communication and links between the provincial administration, ministry directorates, and the MoP in Baghdad, a key requirement for disbursement of additional project funds from the federal budget.

Under a separate initiative, the State Department is also supporting GOI efforts to further develop its professional diplomatic corps. In April 2008, 15 entry-level Iraqi diplomats traveled to Washington, D.C., for a USG-funded training program. The two-week program included study at Georgetown University, practical training at the Department's Foreign Service Institute, and consultations at the Department's offices in Washington.

**(D) Accelerating the delivery of basic services;**

From 2004 to August 2007, Iraqi public electricity supply from the grid fluctuated seasonally but had little or no consistent year-on-year increase. That pattern was broken in September 2007, when supply increased by more than 20 percent from the year-earlier period. The year-on-year supply increase averaged more than 8 percent between April and June 2008.

**(E) Securing the delivery of pledged economic assistance from the international community and additional pledges of assistance;**

The ICI, launched on May 3, 2007, is working well as a framework for coordinating donor assistance in support of Iraq's efforts to reform and improve its

economy. The First Annual ICI Review Conference was held in Stockholm, Sweden on May 29, 2008. Nearly 100 countries and international organizations met to review Iraq's progress and reaffirm their support. Since the launching of the ICI a year earlier, Iraq's international partners cancelled \$18 billion in Saddam-era Iraqi debt, initiated new soft loans for projects worth about \$2.5 billion, and contributed more than \$300 million in new financial assistance. Iraq's donor partners undertook numerous new technical assistance programs in such areas as agriculture and rule of law, and sustained their ongoing efforts to build ministerial and provincial capacity across the country.

The ICI Secretariat, which is responsible for overseeing implementation of the Compact within the Iraqi government, now has permanent Iraqi directors and deputy directors and is working to hire more full time Iraqi staff. The UN provides experts to support Iraqi officials in this capacity under a contract funded by the European Commission (EC). The World Bank, the United Kingdom's Department for International Development and, from time to time, the U.S. Embassy in Baghdad also provide technical assistance to the ICI Secretariat. The UN and Iraqi government have agreed to execute a performance based review of ICI management over the next several months to strengthen planning and oversight competencies.

Individual non-U.S. donor country pledges for Iraq have reached \$15.24 billion, including \$13.34 billion in foreign assistance and soft loans at the Madrid pledging conference in October 2003 and an additional \$1.9 billion since the ICI was launched. Included in this total is a \$1 billion ICI pledge from Iran for soft loans for economic projects in Iraq.

The IRFFI is the principal multilateral mechanism for delivering donor assistance to Iraq. Through the end of March 2008, the IRFFI had received a total of \$1.83 billion in donor deposits – up by more than \$300 million since the ICI launch. In addition to their deposits with the IRFFI, individual international donors have provided or made project-specific commitments to provide approximately \$6.1 billion in bilateral assistance and soft loans. Thus, total assistance to Iraq from international donors that has been provided or is in the pipeline amounts to about \$7.8 billion.

The EU/EC and a number of individual donor countries have substantially exceeded their Madrid pledges. The EU/EC has given more than €800 million, or about \$1.2 billion at current exchange rates, for Iraqi reconstruction and humanitarian assistance. This surpasses its Madrid pledge of \$235 million. At the



ICI Annual Review in Stockholm, the EC said it would contribute more than €80 million (\$120 million) to Iraqi reconstruction and humanitarian relief during 2008. This amount includes assistance to help refugees and to support a Public Financial Management project. The EC and Iraq also held their fourth round of negotiations for a new Trade and Cooperation Agreement. The United Kingdom, Australia, Korea, the Netherlands, Norway, and Finland have also substantially exceeded their pledges.

Japan made substantial progress in providing assistance to Iraq and is preparing to move forward with \$2.1 billion in soft loans for major infrastructure projects all around Iraq. Japan also gave about \$1.5 billion in financial assistance, \$5 million for urgent humanitarian assistance and hosted the second round of meetings for high-level Iraqis, helping them to address the issues of political reconciliation. This brings the total amount of assistance that Japan has given or currently has in the pipeline to about \$3.6 billion of its total Madrid Pledge of \$5 billion. With improvements in the security situation, Japan is working with the Iraqis to identify projects – including some in previously inaccessible regions. These projects would be supported by the remaining \$1.5 billion in soft loan facilities.

Since the launching of the ICI, Kuwait has taken the lead among Iraq's Gulf neighbors, providing \$60 million in humanitarian assistance and bringing its total contributions to \$125 million in comparison to its Madrid pledge of \$500 million. No new assistance has been forthcoming from the other Gulf donor countries (Saudi Arabia, the United Arab Emirates, Qatar, and Oman), which remain about \$650 million short of meeting their combined Madrid assistance pledges of \$815 million (excluding Saudi Arabia's additional offer of \$500 million in trade credits).

At Madrid, the World Bank and the IMF indicated that Iraq could potentially make use of their facilities in amounts as large as \$3 billion and \$2.55 billion, respectively. The World Bank is currently working to place its initial assistance of \$399 million in International Development Assistance soft loans for four major projects. In December 2007, Iraq fully repaid, ahead of schedule, a \$470 million loan drawn in 2004 under its Emergency Post Conflict Agreement with the IMF. It also signed a new SBA with the IMF. The new SBA has a credit facility of about \$740 million, but Iraq currently has a strong financial reserve position and has not drawn on this facility.

The IRFFI is composed of two Iraq Trust Funds, one managed by the UN Development Group (UNDG) for \$1.33 billion and the other by the World Bank

for \$497 million. As of the end of March 2008, the UNDG had approved and funded 180 projects worth about \$1.11 billion, and had disbursed \$737 million. As of November 2007, the World Bank had 16 projects (including two completed projects) valued at \$437 million, of which \$132 million has been disbursed. Both the UNDG and World Bank have committed to review their priorities to determine how any as-yet uncommitted funds can be allocated in support of Iraq achieving its goals under the ICI. Along these lines, there is a growing consensus among donors that Iraq needs help building the capabilities of its ministries and provincial governments and should move rapidly to modern Public Financial Management practices in order to do a better job at spending its own considerable financial resources.

Since the launching of the ICI, Iraq has reached bilateral debt reduction agreements with three large official creditors. In return for a one-time payment of about \$350 million, Bulgaria cancelled \$3.5 billion in debt. For a one-time payment of about \$250 million, the former Yugoslav republics of Slovenia, Serbia, and Bosnia cancelled \$2.5 billion in debt. Finally, Russia, the last Paris Club member to settle with Iraq, agreed to reduce the debt it holds from \$12.9 billion down to \$900 million.

**(F) Training Iraqi security forces and transferring additional security responsibilities to those forces and the government of Iraq;**

Coalition and Iraqi forces have trained more than 478,000 Iraqi MoD, MoI and Counter Terrorism Bureau (CTB) personnel. Since June 2007, the security ministries have added 52,000 soldiers, 46,000 Iraqi police, 15,000 NP, and the Iraqi air force has expanded by 21 aircraft. As of May 1, 2008, Iraqi MoD, MoI and CTB assigned forces numbered approximately 559,000 personnel. This continuing expansion is a result of three major factors. The first is an opportunity to recruit members from the “tribal awakening.” The second is the consolidation of units from various government agencies and ministries under the command and control of the Iraqi security ministries. The third factor is a GOI reassessment of the size of an Iraqi force necessary to assume more responsibility for security as the situation allows.

**II. Whether the Iraqis have made the compromises necessary to achieve the broad-based and sustainable political settlement that is essential for defeating the insurgency in Iraq.**

**(A) Enacting a broadly-accepted hydrocarbon law that equitably shares revenue among all Iraqis;**

The majority of the GOI's national budget is funded by oil revenue (84 percent based on the 2008 budget). Funds are allocated to provincial governments to provide for improved essential services and capital investment based on provincial population. During 2008, the provincial allocation, excluding Kurdistan Regional Government provinces, amounted to \$3.3 billion. As a result, oil revenues are currently being distributed to provinces on an equitable basis and distributed among all Iraqis. However, the GOI is discussing a four-law package that includes a national hydrocarbon framework law, a revenue sharing law, the reconstitution of the national oil company, and the restructuring of the federal MoO. None of the laws are before the CoR at this time. A draft of the hydrocarbon law was submitted to the CoR last year, but is now pending resolution of differences among the various parties within the GOI over subsequent changes to the draft.

In an effort to come to consensus, Iraqi officials continue to discuss outstanding issues regarding the hydrocarbon framework law, which would, among other things, set forth procedures for international investment. However, in the absence of a signed hydrocarbon law, Iraqis are still benefiting from expanded oil revenue created through increased production volumes and prices.

**(B) Adopting laws necessary for the conduct of provincial and local elections, taking steps to implement such laws, and setting a schedule to conduct provincial and local elections;**

The Provincial Powers Law requires that provincial elections be held by October 1, 2008. The Presidency Council continues publicly to support elections by that date, and all major parties have announced their support for elections. An accompanying election law must also be passed before provincial elections can be held. The election law will set the legal basis and structure of provincial and national elections. The Provincial Elections Law has had its second reading in the CoR.

Although an election law is necessary for provincial elections to take place, Iraqis have already begun the technical preparations for those elections. The Iraqi Independent Higher Electoral Commission (IHEC) is continuing to update the voter registry and is working to nominate the three remaining vacant Governorate Electoral Officer (GEO) positions. During this reporting period, IHEC

successfully nominated five GEOs (11 had already been nominated previously, out of a total of 19 positions). GEOs, who will manage the elections locally, are a necessary prerequisite for holding provincial elections. UNAMI and programs through USAID's partner IFES have also provided technical assistance to help IHEC prepare for new elections. Other programming and assistance is being offered through the Bureau of Democracy, Human Rights and Labor (DRL) and their partners, including the National Democratic Institute (NDI) and the International Republican Institute (IRI). NDI and IRI each have \$50 million dollars in DRL funding for Iraq programs. Most of their programming in Iraq either directly or indirectly supports election preparations, as it focuses on the areas of civic participation, governance, political party development and strengthening, increasing youth and women's participation in political life, and media training.

**(C) Reforming current laws governing the de-Baathification process in a manner that encourages national reconciliation;**

In February, the GOI passed the Law on Accountability and Justice (also known as de-Baathification reform). Iraq's leaders have pledged to pursue implementation that would bolster reconciliation efforts. The law would allow an estimated 38,000 former members to return to government employment.

In 2003, Coalition Provisional Authority Order 1 abolished the Baath Party and removed the top four levels of Baath Party members from government positions; the order also banned them from future government service. Although the implementation procedures for the Accountability and Justice Law have yet to be determined, the law allows former fourth level (firqa) Baath Party members to return to government employment, with some exceptions. The law also creates a limited appeals process by creating a committee of judges to adjudicate de-Baathification cases.

In addition to the Accountability and Justice Law, December 2007 amendments to the Unified Pension Law restore pension rights to former civil servants and military officials without regard to former party affiliation.

**(D) Amending the Constitution of Iraq in a manner that encourages national reconciliation;**

The Constitutional Review Committee has requested an extension until July 2008 to complete their recommendations. The committee has been tasked with analyzing the current constitution and suggesting necessary amendments.

Although the committee has not yet completed its recommendations, passage of key legislation like the Provincial Powers Law (and future passage of hydrocarbons legislation) will remove some constitutional issues from its purview, which will likely speed up the process.

**(E) Allocating and beginning expenditure of \$10 billion in Iraqi revenues for reconstruction projects, including delivery of essential services, and implementing such reconstruction projects on an equitable basis;**

GOI ministries and provincial governments have improved their ability to meet the needs of the Iraqi people by working to develop and spend their own capital reconstruction budgets. Both ministries and provincial governments made significant progress in executing their budgets in 2007, although there is room for further improvement in 2008. The GOI will soon release a final expenditure report for 2007. We believe that the GOI spent as much as \$3 billion of its \$10 billion capital budget, and committed an additional \$3 billion (these funds are in open letters of credit and are not fully disbursed). The \$3 billion expenditure represents a 50 percent increase in spending over 2006 levels. In the coming month we hope to receive final 2007 numbers to verify these preliminary estimates.

**(F) Making significant efforts to plan and implement disarmament, demobilization, and reintegration programs relating to Iraqi militias;**

The Joint Technical Education and Reintegration Program (JTERP) is an Iraqi-directed program that provides classroom-based vocational training to the SoIs. JTERP is a collaboration of efforts among multiple ministries, including the Ministry of Labor and Social Affairs, the MIM, and the Ministries of Higher Education and Education, as well as the Disarmament, Demobilization and Reintegration Committee. The USG provides \$35.5 million from the Iraq Security Force Fund (ISFF) to JTERP while the GOI provides \$196 million in funding. JTERP has implemented pilot programs in Tikrit and Mahmudiyah to test procedures before full implementation in the summer of 2008. The program will expand to five sites with a target of 5000 SoIs from a transition class starting in June 2008. The Civilian Service Corps (CSC) is a separate, on-the-job apprenticeship training program designed to teach vocational skills while improving the infrastructure of the community. Multi-National Corps – Iraq administers and funds this program with \$120 million in ISFF funds. There are 26 CSC contracts throughout Iraq with over 2000 SoIs in this transition program.

**III. A detailed description of the Joint Campaign Plan, or any subsequent revisions, updates, or documents that replace or supersede the Joint Campaign Plan, including goals, phases, or other milestones contained in the Joint Campaign Plan.**

The current U.S. Embassy Baghdad/MNF-I Joint Campaign Plan (JCP) is regularly reviewed and continues to be refined by Department of State and Department of Defense planners in response to changing conditions. While the overarching strategic goals remain firmly in place – a unified, democratic and federal Iraq that can govern, defend and sustain itself and is an ally in the war on terror – the tasks are adjusted as conditions on the ground warrant.

The plan recognizes the imperative of enhancing security and protecting the Iraqi population, and it underscores the importance of advancing the political line of operation to help the Iraqis establish legitimate, representative governance in their country at both the national and provincial levels. All lines of operation – economic, diplomatic, military, and political – are in support of this end. The current plan places a renewed emphasis on diplomatic initiatives in the region designed to create a secure international and regional environment in which Iraq can succeed.

Coalition Forces and U.S. Embassy Baghdad are committed to helping to set the conditions for the Iraqis to achieve sustainable security, advance reconciliation, and secure political and economic development. The plan introduces a major cross-cutting initiative to engage with disenfranchised but reconcilable actors, moving them away from violence and reintegrating them into Iraqi political, economic, and social development.

**(A) An explanation of conditions required to move through phases of the Joint Campaign Plan, in particular those conditions that must be met in order to provide for the transition of additional security responsibility to the Iraqi Security Forces, and the measurements used to determine progress;**

The JCP defines four lines of operation encompassing political, security, economic, and diplomatic efforts. The plan outlines efforts to build government capacity, promote good governance, communicate strategically, develop the rule of law, and bring about reconciliation among Iraq's competing actors. Integrated efforts along these lines of operation will foster the Iraqi political accommodation

necessary for Iraq to achieve sustainable security while advancing political and economic development.

In determining when to transfer additional security responsibility to the GOI, the Prime Minister of Iraq and the MNF-I Commander use the PIC process to determine when a province is ready to transition security responsibility, based upon the recommendation of the respective Provincial Governor. The criteria used to determine a province's readiness extend well beyond the security portfolio and focus on the province's governance capacity and ability to deliver essential services to its population.

Currently, nine of Iraq's 18 provinces are under PIC. Anbar and Qadisiyah Provinces are scheduled to transition to PIC this summer. This will bring the total number of provinces for which the GOI has lead security responsibility to 11 of 18 provinces.

**(B) An assessment of which conditions in the Joint Campaign Plan have been achieved and which conditions have not been achieved. The assessment of those conditions that have not been achieved shall include a discussion of the factors that have precluded progress;**

The U.S. Ambassador in Iraq and the MNF-I Commander oversee a process of continuous review, assessment and revision of the JCP and they have the latitude to revise the document in response to changes in the operational environment. The JCP acknowledges that efforts must be integrated with the GOI. It also recognizes that transition of security responsibility to the GOI must take place at a responsible rate, based upon existing security threats and conditions and the GOI's capacity to assume further responsibility and protect its population.

**(C) A description of any companion or equivalent plan of the Government of Iraq used to measure progress for Iraqi Security Forces undertaking joint operations with Coalition Forces;**

The Iraqi MoD and Multi-National Corps-Iraq jointly conduct a thorough assessment of Iraqi forces using the Operational Readiness Assessment (ORA) process to determine a unit's readiness to lead operations. There is no stand-alone Iraqi readiness measurement system. The compilation of ORA data is a combined effort. ORA data is submitted separately to Congress on a quarterly basis pursuant to Section 3303 of Public Law 110-28.

**IV. To the extent that these conditions are not covered under paragraph III, the following should also be addressed:**

**(A) The number of battalions of the Iraqi Armed Forces that must be able to operate independently or to take the lead in counter-insurgency operations and the defense of Iraq's territory;**

There is no requirement that identifies a minimum number of IA battalions necessary to lead counterinsurgency missions and defend Iraq's territory without Coalition assistance. The USG continues to work with the GOI to ensure the appropriate size, capability, and leadership of ISF such that they can assume additional security responsibility from Coalition forces.

As of June 1, 2008, 147 army combat battalions are conducting operations. Four Special Operations battalions are capable of conducting operations with minimal Coalition support. Of all formed IA units, 67 percent are rated as being able to plan, execute, and sustain operations with minimal or no assistance from Coalition forces.

**(B) The number of Iraqi special police units that must be able to operate independently or to take the lead in maintaining law and order in fighting the insurgency;**

As of June 1, 2008, there were 11 battalions rated as capable of planning, executing and sustaining operations with minimal Coalition support. There were 20 battalions rated as partially capable of planning, executing and sustaining operations with Coalition support. The NP is also continuing its efforts to achieve, through both recruiting and assignments, better ethno-sectarian balance within the force so that force demographics reflect the Iraqi population.

Iraq's National Chief of Police noted that the first *Carabinieri*-trained NP battalion excelled in Baghdad and performed well in the Basrah operations during this reporting period. The increased effectiveness and deployability of NP units marks the beginning of a transition of the NP from a static, Baghdad-centric force to a rapid response force for the GOI. The NP has conducted more than 15 operational deployments outside of Baghdad, most recently in Basrah.

**(C) The number of regular police that must be trained and equipped to maintain law and order;**



There is no set requirement that identifies the minimum number of trained and equipped Iraqi Police to maintain law and order. As of June 1, 2008, the Iraqi Police Service (IPS) consists of approximately 290,000 patrol, station, and traffic personnel. The IPS mission remains unchanged: to enforce the rule of law, safeguard the public, and provide local security. The USG continues to work with the GOI to ensure the appropriate size, capability, and leadership of the IPS so that the IPS can accomplish its mission.

**(D) The ability of Iraq's Federal ministries and provincial and local governments to independently sustain, direct, and coordinate Iraq's security forces;**

Recent events in Basrah demonstrated the MoD's increasing ability to deploy military units rapidly as demonstrated by the forward deployment of a division equivalent of IA forces to that area in less than seven days. Iraqi forces in Basrah solved provincial security challenges. While many IA units performed well under fire, some local police units in Basrah displayed loyalties unsupportive of provincial interests. As events unfolded in Basrah, provinces such as Baghdad, Maysan, Karbala and Najaf all experienced a brief spike in retaliatory violence. Iraqi forces demonstrated effective responses to nearly every contingency with minimal Coalition involvement. Iraqi forces in Mosul and Diyala continue to pursue AQI and criminal militia groups while providing improved security in both areas. Overall, IA forces continue to improve but rely on Coalition forces for combat support enablers such as close air support, intelligence, surveillance and reconnaissance.

**V. The criteria to be used to evaluate progress toward meeting such conditions.**

As their readiness levels improve, Iraqi forces will be able to secure Iraq with proportionally reduced Coalition support. The conditions established by the Joint Committee to Transfer Security Responsibility provide a framework with which to assess provincial readiness to transition to PIC. The ability of Coalition forces to reinforce the ISF if necessary, the readiness and capabilities of ISF, levels of present and projected insurgent activity and the readiness and capabilities of relevant government institutions are considered prior to transitioning a province to Iraqi control. Of the required criteria for PIC, Iraqi security self-reliance is the most difficult to attain and is proceeding at a different pace in each province. Currently, nine of 18 provinces have achieved PIC. Anbar and Qadisiyah are expected to achieve PIC in the summer of 2008.

**VI. A plan for meeting such conditions, an assessment of the extent to which such conditions have been met, information regarding variables that could alter that plan, and the reasons for any subsequent changes to that plan.**

The Coalition's four broad areas of emphasis in developing the MoD and MoI are: (1) support the force generation and force replenishment of the security ministries; (2) improve the proficiency of the Iraqi forces; (3) build specific logistic, sustainment and training capacities; and (4) develop ministerial and institutional capacity.

The four near-term areas of special emphasis through 2008 also remain unchanged: Guide the Iraqi forces to self-sufficiency; ensure that the ISF size, capability and leadership is appropriate to be able to assume security responsibility; enhance the capabilities of Iraqi special operations; and promote the continued growth of the Iraqi Air Force and Navy.

The ability of the ISF to support and sustain fielded forces is improving. While work remains, these improvements are likely to achieve the goal of making the ISF mostly self-sufficient by the end of 2008. Specific focus areas for improvement include increasing MoD visibility on materiel status, increasing their logistics, replenishment and supply planning capability, and improving the ISF's ability to procure supplies in a timely manner.

As previously reported, total ISF structure requirements – military, police and special-operations forces – could expand to between 601,000 and 646,000 by 2010. Ultimately, the GOI will decide force levels based on national security requirements and its fiscal capacity to sustain a significantly expanded force structure. The MoI predicts growth to a total force of approximately 389,000 personnel in the IPS, NP and Directorate of Border Enforcement by the end of 2008. The MoD continues to focus on fielding the Counterinsurgency (COIN) force. The COIN force will include 13 Army divisions (12 infantry, one mechanized) along with supporting forces, a Navy of 2,500 personnel, and an Air Force of 6,000 personnel. Additionally, a 5,400-man Iraqi National Counter-Terrorism Force will contribute to the COIN effort. By the end of 2008, the Multi-National Security Transition Command – Iraq expects total ISF – military, police, and special-operations forces – to grow to at least 588,000 personnel.

As Coalition forces turn over responsibility for the security of an area to the ISF, the GOI may make new assessments on ISF manning requirements. The GOI

assessments consider the following: level of violence in the area, competency of the local ISF to conduct missions with minimal or no Coalition support, leadership challenges, maintenance concerns, and logistical and sustainment challenges.

**VII. An assessment of the levels of U.S. Armed Forces required in Iraq for the six-month period following the date of the report, the missions to be undertaken by the Armed Forces in Iraq for such period, and the incremental costs or savings of any proposed changes to such levels or missions.**

As General Petraeus testified to Congress in April 2008, MNF-I will enter a 45-day period of consolidation and evaluation subsequent to the redeployment of surge Brigade Combat Teams (BCTs) with an adjusted force of 15 BCTs. The structure of Combat Support and Combat Service Support forces will be adjusted to complement ongoing operations in Iraq.

MNF-I will continue to assess the operational environment to determine future force adjustments. It is impractical and inappropriate to project the disposition of forces and the pace of further reductions beyond this period of consolidation and evaluation. Over the next six months, MNF-I and the U.S. Embassy, in partnership with the GOI, will continue to integrate political, security, economic, and diplomatic efforts to maintain security and transfer responsibility for that security to the ISF.

**VIII. A description of the range of conditions that could prompt changes to the levels of U.S. Armed Forces required in Iraq for the six-month period following the date of the report or the missions to be undertaken by the Armed Forces in Iraq for such period, including the status of planning for such changes to the levels or missions of the Armed Forces in Iraq.**

MNF-I continuously assesses a wide range of factors across the security, governance, diplomatic, and economic lines of operation to determine the feasibility of adjusting force levels. Key security conditions include: the capabilities and strength of AQI and other extremist groups, the strength and activities of criminal groups, the GOI's capacity to lead and conduct operations against insurgents and criminal groups, the GOI's capacity to secure its borders, and the reintegration of reconcilable individuals and groups into Iraq's political process and society.

Progress on the political front will consist of the passage and implementation of important legislation, preparations for provincial elections, and continued

progress in establishing the rule of law. The development of ministerial capacity and success in budget execution at both the national and provincial levels, are also relevant considerations.

Diplomatic metrics include the support of regional states in stemming the flow of foreign fighters and terrorists, international economic support, foreign trade and investment, and foreign diplomatic representation in Iraq. Finally, relevant economic factors include the status of Iraq's critical infrastructure, sustainable employment opportunities, provision of basic services, and overall economic growth.

All of these factors, when viewed collectively, make up the Iraqi Operational Environment. As such, it is the collective assessment and demonstrated progression along all lines of operation that will lead to future force adjustments.

For additional details on ISF training, capability, and progress, please refer to the quarterly report to Congress entitled "Measuring Stability and Security in Iraq," [http://www.defenselink.mil/home/features/Iraq\\_Reports/index.html](http://www.defenselink.mil/home/features/Iraq_Reports/index.html).

For additional information on reconstruction, assistance, and the delivery of essential services, please refer to the 2207 Quarterly Report to Congress on The Iraq Relief and Reconstruction Fund (IRRF), <http://www.state.gov/p/nea/rls/rpt/2207>, or for general information on the status of political, economic, and security efforts, the Weekly Status Report, available on the Department of State web site, <http://www.state.gov>.

**List of Acronyms and Abbreviations**

AQI	Al Qaeda in Iraq
BCT	Brigade Combat Team
CBI	Central Bank of Iraq
COIN	Counterinsurgency
CoM	Council of Ministers
CoR	Council of Representatives
CSC	Civilian Service Corps
CTB	Counter Terrorism Bureau
DIB	Disputed Internal Boundary
DRL	Bureau of Democracy, Human Rights and Labor
EC	European Commission
EU	European Union
FY	Fiscal Year
GCC	Gulf Cooperation Council
GEO	Governorate Electoral Officer
GOI	Government of Iraq
IA	Iraqi Army
ICI	International Compact with Iraq
IDP	Internally Displaced Person
IHEC	Independent Higher Electoral Commission
IMF	International Monetary Fund
IOM	International Organization for Migration
IPS	Iraqi Police Service
IRFFI	International Reconstruction Fund Facility for Iraq
IRI	International Republican Institute
ISF	Iraqi Security Forces
ISFF	Iraq Security Force Fund
ITAO	Iraq Transition Assistance Office
JAM	Jaysh al-Mahdi
JCP	Joint Campaign Plan
JTERP	Joint Technical Education and Reintegration Program
KBL	Kirkuk Brotherhood List
LGP	Local Government Program
MIM	Ministry of Industry and Minerals
MNF-I	Multi-National Force – Iraq
MoD	Ministry of Defense
MoDM	Ministry of Displacement and Migration

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- 38 -

MoI	Ministry of Interior
MoO	Ministry of Oil
MoP	Ministry of Planning
NATO	North Atlantic Treaty Organization
NDI	National Democratic Institute
NP	National Police
NTM-I	NATO Training Mission-Iraq
ORA	Operational Readiness Assessment
PAC	Procurement Assistance Center
PC	Provincial Council
PDP	Provincial Development Plan
PDS	Public Distribution System
PIC	Provincial Iraqi Control
PRT	Provincial Reconstruction Team
SBA	Stand-By Arrangement
SoI	Sons of Iraq
TIFA	Trade and Investment Framework Agreement
TSA	Technical Service Agreements
UN	United Nations
UNAMI	United Nations Assistance Mission to Iraq
UNDG	United Nations Development Group
UNHCR	United Nations High Commissioner for Refugees
UNSCR	United Nations Security Council Resolution
USAID	United States Agency for International Development
USG	U.S. Government
WTO	World Trade Organization

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